

CDBG POLICY COMMITTEE MEETING
August 22, 2001
MINUTES

Present:	Chesley Christensen	Six County AOB
	Jerry McNeely	SEUALG
	Bryce Nielson	BRAG
	Howard Pryor	FCAOG
	Robyn Pearson	Wasatch County
	Cheryl Elliott	CDBG office
	Keith Heaton	CDBG staff
	Gary Zabriskie	FCAOG
	Lane Nielson	WFRC
	A. DeMar Mitchell	WFRC
	Debbie Hatt	SEUALG
	Sheila Peterson	DCED
	Cris Rhead	DCED
	Jeff Gilbert	BRAG
	Kelari Kellar	UBAOG
	Lorna Strandering	UBAOG
	Steve Browne	MAG
	Glenna Matekel	CDBG Staff
	Richard Walker	CDBG Staff
	Shirleen Lowry	SCAOG
	Emery Polelonema	SCAOG
	Arthur Peterson	CDBG
	Brent Tucker	HUD
	Alan J. Naazaro	HUD
	Mike Kohler	Wasatch County
	Jay Downs	Diatect International
	Ned Jensen	Molecular Biologics

WELCOME AND INTRODUCTIONS: The meeting was held Wednesday August 22, 2001 at 324 South State Street, 5th Floor in Salt Lake City and began at 1:00 p.m. Mayor Chesley Christensen welcomed everyone and asked for introductions.

APPROVAL OF MINTUES: Mayor Christensen asked for approval of the minutes from the June 28, 2001 CDBG Policy Committee Retreat at Fish Lake, Utah.

DeMar Mitchell made a motion to approve the minutes from the Fish Lake Retreat on June 28, 2001. Howard Pryor seconded the motion. The motion carried.
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PRESENTATION: Mayor Christensen announced that two members of the committee would be retiring at the end of the year. He thanked DeMar Mitchell (January 1996– December 2001) and Howard Pryor (January 1998 – December 2001) for their many years of service on the committee. To show appreciation a plaque was presented to each of them.

DISCUSSION: DIFFERENCES BETWEEN INTERIM LOANS AND 108 LOANS: This discussion was led by Richard Walker. The **interim loan** is a very effective tool to provide short-term low interest financing for projects that meet all the eligibility tests and also meet the national objective of

providing employment opportunities for low and moderate-income persons. The first interim loan we did was to the Intermountain Indian School in Brigham City for \$3 million. The process and the ability to fund this type of loan request follows a specific procedure. The State receives authorization to commit and expend all of our annual CDBG allocation (approximately \$8,000,000 yearly) at the beginning of each program year (April 1st). All the annual grantees are working under an 18-month contract, but it always takes a period of time for all the grantees to initiate their projects and spend the money, so a significant amount of that \$8 million sits unused for a large part of the program year. During that 18-month period, a second HUD award is received by the state for approximately another \$8 million. HUD's regulations, along with the Policy Committee's approval, allow the state to double commit the money already awarded to annual grantees by committing it to another entity for an economic development loan under very strict requirements. The money must be repaid with interest within a reasonable period of time. The main criteria that determines whether or not the loan will be made is whether the recipient can obtain an unconditional irrevocable letter of credit from an approved bank. The money is loaned on an initial two-year term. If the recipient wants to extend it beyond two years they would be required to come back to the CDBG Policy Committee and ask for a one-year extension on the original two-year loan. There is not a limit on the number of extensions that can be approved by this committee. Some have gone as long as five years (original 2 year loan + 3 one- year extensions). There have been no failures because there is a letter of credit. Since the letter of credit is unconditional and irrevocable, if a payment to an annual grantee has been needed, we can draw on the letter of credit and receive a check the same day. Projects must be tracked carefully so that the letter of credit and/or the contracts don't expire prior to asking for funds. There is always at least a one-month overlap. Typically a recipient will pay the principle and interest in a lump sum at the end of the contract. Right now there is a large amount of money available for short-term loans. We are #1 in the nation for expenditure of dollars due to our effective use of interim loans. We draw the money down from the Federal Government, we loan it, we utilize it, the loan recipient pays the money back, and we use that money first before requesting any more from the Federal Government. We have been able to assist companies that need it and to create jobs for low or moderate-income people.

Section 108 Loans: Section 108 loans are not loans the State approves. They are approved directly by HUD. The State guarantees future allocations of CDBG funds to repay the loan. An application is prepared and part of that process must be the approval from this committee to guarantee the future use of CDBG money. There is no letter of credit with these loans. HUD also requires more collateral than just the guarantee of future funds. If HUD approves the application, the paper is sold on the open market as a tax-exempt investment on behalf of the investors who buy it and they have a guaranteed return on their investment. There are some very effective Section 108 loans in the State of Utah. The guarantee is only drawn on when the loan is in default.

In summary, when an **Interim Loan** is made the State makes the loan and obtains the security. We oversee it directly and have a contract through an eligible entity. In a **Section 108 Loan** the State is somewhat removed. HUD makes the loan and the State is not the primary contractor. We are participants in the application only by guaranteeing the future use of CDBG money.

In the future, Section 108 loans guaranteed by the State will have much more stringent safeguards. We will have specific kinds of contractual relationships. We will sign a contract with the recipient to force oversight by the status, and allow us financial reports. These loans can be very valuable tools and should be used. This type loan also requires a lot of work and so should be used only for large loans (\$500,000 - \$1,000,000).

Howard asked Richard where the interest on both types of loans goes. Richard said that the interim loan interest returns to the State. On Section 108 loans, the interest returns to the investors.

Millard County Response to Policy Board Decision: Richard said that Millard County was very appreciative that the committee had agreed to help them pay off their obligation. They did ask that the Policy Committee consider that they be allowed to use their entire annual Six County appropriation to Millard County to pay off their part of the debt in five years rather than pay the minimum amount for the next seven years. The other AOG's and the State would pay off their obligation in seven years.

Bryce Neilson did not feel this was a good solution. He said that Millard County would be using up all the annual CDBG allocation to pay their loan off, but during that five year period the citizens would be denied some worthwhile projects that could help them in the county. Bryce stressed that it should be this committee's first obligation to think about the citizens of the state and the ability to make money available to the citizens rather than get local government out of a problem that is affecting all of us.

Richard said that Millard County would be required to hold public hearings and get input from the citizens before the county could opt to use this method. Bryce said it is important that the public be aware that no other projects would be awarded if all the money were used to pay off the debt. Lorna agreed with Bryce that Millard County should not be allowed to pay off the debt in five years. It would not be fair to the rest of the regions who will be helping to repay Millard's obligation over a seven year time frame.

The Committee will recommend to Millard County that they hold public hearings to get public input on the proposal.

STATUS OF WASATCH COUNTY INTERIM LOAN (approved June 28, 2001): Robyn Pearson reminded the committee that Wasatch County had asked for money to buy a building to house a company called MOXTEC. The County was obligated to buy the building even though MOXTEC pulled out of the agreement. The County has been looking for another company to move into the building. (County Commissioner Mike Kohler attended this meeting.) Two companies interested in acquiring this building were represented in the meeting.

1. **DIATECT INTERNATIONAL:** Jay Downs spoke on behalf of this company. It is located in Boise but could relocate within 30 days. This company manufactures an organic product that controls crickets, fire ants and other insects. There would be 66 employees; all but 5 would be from Wasatch County. Only 10 people would require specialized skills. There would be in-house training for other jobs. They would meet the 51% requirement for low-moderate income level people when they are hired. Regardless of whether or not the funding is available, this company will be moving to a new location. The cost of the building is well within the budget of the company. (Robyn said that there still needs to be a letter of credit for this company.)
2. **MOLECULAR BIOLOGIC :** Ned Jensen presented the information for this company. Supplements for health practitioners are made by this company. It is located in California. There are 400 different items sold to health professionals. The owner is interested in the location to be closer to family. This building would enable them to increase packaging, marketing and eventually expand to the Internet. Fifteen employees would be coming to Utah, and another 12 will be hired when they move. It is hoped that the company will grow to 100 employees. People would be trained in manufacturing, quality control, shipping and receiving, and sales.

Robyn spoke to the committee and said that he hoped that the loan could be "rolled over". Both of the presenting companies would fit in well in the county and provide jobs for up to 100 people. Richard said that we need to be careful with anti-pirating requirements. The reasons for moving must be carefully

documented. Robyn said that prior to Wasatch County buying the building Molecular Biologics was already considering moving to Utah. They approached Wasatch County about the building.

Bryce asked what Robyn means by “roll over” the loan. Robyn said Wasatch County would like to turn over their letter of credit to the company that buys the building. This would free up capital for the county to award to other CDBG projects primarily because of interest payments. He would also like to see a 0% loan given to the company that buys the building. Bryce said he would feel more comfortable if Wasatch County would sell the building to one of the businesses and then the business could come back to the committee and ask for money if they need it to expand. The 0% interest loan was given to Wasatch County to help them out of a bad situation and shouldn't simply be given to a new company which may have the ability to pay a higher interest rate. Bryce suggested that the whole process be started again with a new company and not just give them what was set up for Moxtec. Lorna supported Bryce's suggestion. LaMar said that Wasatch County needs to decide which company they want and then come back to the committee with a request.

Keith thanked Wasatch County for their hard work, but agreed that they need to come back after the new company is selected. Richard said if necessary an interim meeting could be called rather than wait until February to meet and the company could be presented at that time.

SECTION 108 LOANS DISCUSSION: Presented by Alan Nazarro, HUD Economic Development Specialist, Denver. Only 1.5% of the annual allotment of CDBG money should be sitting unused at any one time. 108 loans are a great way to use the money. In 1994 there was a big push to cut back Government spending and CDBG money almost disappeared. The Credit Reform Act was also passed in 1994. The result was that HUD now must ask for additional collateral on a 108 loan as well as the State CDBG guarantee when the loan is given. There must be 1.25-debt service ratio coverage with the collateral you have for whatever loan you do, in addition to the CDBG guarantee. The contract on the loan guarantee is between the state and HUD. The state has to have a contract to pass the guarantee on to the locality/business. It is up to the contractee (the State) to foreclose on the collateral and monitor the loans. HUD's responsibility is to pay back investors on Wall Street.

The terms of a Section 108 loan are very flexible since it is tied to CDBG appropriations. With the extra collateral requirements, CDBG money is better protected. The repayment schedule is made according to cash flow. Grants are available for 108 loans at the time of application. The grants can help lower the amount of the 108 loan.

Using CDBG money to repay a loan is the last line of defense, but it is the first thing to be touched if a payment is missed. The payment will come out of the CDBG credit line to the state. However, once the payment is made up, the money will go back into the credit line.

Projects must meet the national objectives and public benefit standards: 51% of the jobs would be for low-moderate income people on an economic development project and 51% of the units in a housing project would have to be for low-moderate income. Since the CDBG Program is an entitlement program and non-competitive, you can do an application any time of year.

HUD's biggest change with the 108 loans is the amount of time required to obtain the loan; it is much shorter than before. The actual time from application to approval should not take longer than 90 days and hopefully will get down to 30 days instead of the year it has taken in the past.

PROPOSED POLICY REVISIONS/REWORDING: Keith Heaton presented changes in wording for **108 Loan Payback Policy**. The committee discussed the policy and Lorna Stradinger suggested it be reworded to read as follows:

It is the policy of the State of Utah CDBG Policy Committee that Section 108 Loan Guarantees approved by the committee do not obligate the resources of the entire state allocation. In case of default, the loan will be repaid in full by the AOG CDBG allocation and/or the region originating the loan request.*

Motion: Bryce Nielson made a motion to approve the amended 108 Loan Payback Policy. Lorna Stradinger seconded the motion. Motion carried.

Keith also presented changes in the wording of the **Loan Request Consideration Limit**. A discussion was held regarding this policy and the following was the result:

It is the policy of the State of Utah CDBG Policy Committee that approved interim loans will have a limit of one year between the dates the loan request is conditionally approved and the loan contract is executed. If a contract is not executed within this time frame, the applicant must submit a new application.

(* The original title used in these policies was "Policy Board" but Richard said that the official name is "Policy Committee." Therefore, the wording was changed to "Policy Committee.")

Motion: DeMar Mitchell made a motion to approve the amended "Loan Request Consideration Limit" policy. Lorna Stradinger seconded it. Motion carried.

Motion: Bryce Nielson made a motion to change the word "Board" in the "108 Loan Payback Policy" to "Committee". Lorna Stradinger seconded the motion.

POLICY COMMITTEE SURVEY RESULTS: Keith Heaton presented the results of a survey that was sent out to Policy Boards and Committees by the Division. Although only four people responded from this Committee, the results were favorable. The one area that could stand improvement is getting information out to the committee members in a more timely manner. Mayor Christensen suggested that information be sent out prior to the meeting, but not more than two weeks before the meeting. Sheila said that according to the by-laws a draft agenda is to go out one month in advance. Richard said that in a previous meeting it was decided that if a policy issue was involved which would require a motion, information should go out 1 – 1½ months before. Lorna felt that a phone call as a reminder of the meeting would be helpful. Bryce said that he prefers e-mail with the agenda a few days in advance because all brown envelopes look the same and many, many come into his office every day. Glenna Matekel asked if it would be better to send mail to a name address rather than the official address. Some members would prefer their home address used. Richard said that perhaps the agenda could be put on the Web page. Keith pointed out that the staff addresses and phone numbers are in the Application Guide. Bryce suggested that getting CDBG letterhead would be helpful to draw attention to the information.

Richard introduced Emery Polelonema from Six County. He will be taking over the CDBG Program in ten months when Shirleen Lowry retires.

TIMELINESS ISSUES: Sheila Peterson said that in the packets the committee members received was information to be discussed at this meeting. At the last meeting staff indicated that they would share with the committee members some of the documents they receive about CDBG in the office each week. Each member received some of the latest information. Also included in the packet was the latest breakdown of the most recent CDBG/HUD budget that was proposed for approval by Congress and the President.

Sheila attended a COSCDA Conference in June and the major issue discussed at the conference was having a timely expenditure rate. Utah is doing very well. CDBG entitlements and the States should not have more than 1.5 times their annual CDBG allocation sitting around unused 60 days before the end of the fiscal year. Both COSCDA and NAHRO have set up task forces to work with HUD on this issue. Half of the 360 grantees have not met this requirement. HUD wants to institute "severe retributions". Our program is helped greatly by using the interim loans. Some of the things that can effect how much money grantees have at any one point in time are: the point at which the calculation is made after a grantee gets money; what part of the country you live in; multi-year contracts; set asides; and how information is entered in IDIS.

Some of the things Utah does that are good include: we have an early program start date, use old money first and close out the old accounts; we announce grant recipients early in the new year; we have designated project managers; we have a certified grants management program. We also have a policy that all the environmental reviews will be completed within 90 days of receipt of the executed contract.

One of the things that the committee needs to remember is that project maturity is a very important part of whether the funds will be spent in a timely manner. Projects should be ready to go, and not just in the idea stage. "We fund projects not ideas". Applicants need to realize how important it is to have a project ready to go at the time funds become available.

To try to improve grantees progress, Sheila asked for a change in the policy in Chapter 5, page 8 on project duration regarding extensions for Engineering Design. The way the policy is written gives grantees the idea that the Engineering Design does not need to be done until 16 months after getting the grant. As a result some do not start until four months before the contract expires. Sheila would like to change the wording of this policy to read:

The expectation for normal construction projects that include engineering or architecture, unless the engineering or architecture is the entire project, be completed by December 31 of the year the grant is awarded and that the advertisements, the bid award and the Notices to proceed would then take place no later than April of the following year.

Debbie Hatt asked what the main causes for a delay are. Sheila said some of them are project maturity, a change in office personnel who haven't had the proper training, and project managers who often have too much to do. The Policy Committee decided to table this matter until the next meeting. Jeff Gilbert asked if this could be handled on a case-by-case basis. Sheila said staff is always willing to look at any case that has extenuating circumstances.

2002-03 APPLICATION GUIDE: Glenna Matekel did the presentation on the new Application Guide. She said there were no changes in the Application Guide except those approved in June at the CDBG Retreat. Appendix A is the actual Application and Appendix G is the Subcontractor's Agreement.

The schedule for the How to Apply Workshops is:

Sept. 4 & 5 Mountainland - Glenna
Sept. 11 & 12 Southeast - Keith
Sept. 11 & 12 Uintah Basin - Glenna
Sept. 19 & 20 BRAG - Glenna
Sept. 19 SCAOG - Keith
Sept. 19 & 20 WFRC - Sheila
Sept. 25 & 26 FCAOG - Keith

Motion: Bryce Neilson made a motion to approve the 2002 – 2003 Application Guide with the revised wording as written at the CDBG Retreat. Lorna Stradinger seconded the motion. Motion carried.

UPDATE ON SET ASIDES (Down payment, Credit Enhancement, First Time Homebuyers):

Richard presented information on Down Payment Assistance as requested by the Board at the Retreat in June. He did some research and discovered that there is a lot more money available than he realized. Part of the funds came from money the Community Development Corporation of Utah managed. Since the State has withdrawn all financial support from CDC until some problems are resolved, several hundred thousand dollars are now available to go to the Regions. During the past few weeks the State has been issuing contracts to the different Regions for Down Payment Assistance. The Southeast Region, Wasatch Front Regional Council, Tooele County Housing Authority and Mountainlands (which will work through the Utah County Housing Authority) still do not have contracts. The funds are coming from the Olene Walker Housing Trust Fund. In addition, WorkForce Services has \$500,000 left over from Temporary Assistance to Needy Families program to go toward housing. These funds will be used to augment the Olene Walker Trust Fund money.

There also appears to be a need to reinstate the Credit Enhancement Program. This money would be to help people - one time only - to clear up some of their credit problems so that they would be able to qualify to get into a house. When the program was in place before, \$7,000 was given to each Region to use for this purpose. The money would tie in with the First Time Home Buyers program to help people move from apartments into permanent housing. Richard asked the Policy Committee to set aside some money for each Region. The amount could be \$7,000 as it was before or it could be increased to \$25,000, or any amount in between. (\$175,000 set aside). Richard feels that this would be an excellent use of CDBG money. Those using the money will be in credit counseling and their use of credit will be monitored for a period of time. The money would be given as a grant.

Those on the committee who had used the Credit Enhancement program said there were problems. Debbie Hatt said there is no credit counseling available in her region. Also, some people could not qualify because they did not have good enough jobs, and others needed much more money: like \$20,000. Jeff Gilbert asked if the strings attached to the First Time Homebuyer program would be attached to buying down debt. Sheila said that if money other than federal money was used, there wouldn't be strings. Jeff said that he thinks that complying with Lead Based Paint regulations is going to take away a lot of money used in these programs. Some of the regions that worked with the Credit Enhancement money used it to help with down payment assistance. Only one region successfully used the Credit Enhancement Program as it is designed to be used. Mayor Christensen suggested putting this idea on the next agenda. Richard asked that people do research in their area to see if this program would be feasible.

OTHER BUSINESS: The next meeting will be February 27, 2002 in Duchesne.

ACTION ITEMS:

- Discuss the policy concerning project duration regarding extensions for Engineering Design in Chapter 5, page 8.
- Discuss Credit Enhancement Program feasibility
- Consider getting Letterhead for the CDBG Program